



MEMORANDUM

TO: Honorable Members of the City Council

FROM: Adam Benson
Director of Finance

SUBJECT: COVID-19 Fiscal Impact on
FY 2019-20 and FY 2020-21

DATE: March 25, 2020

This informational report provides updated revenue and fund balance forecasts for the General Purpose Fund (GPF) in Fiscal Year (FY) 2019-20 and FY 2020-21 based on data through February 2020. It also provides in Appendix A updated revenue forecasts for select funds that will be most impacted by COVID-19.

In reaction to the COVID-19 pandemic, Alameda County issued a “Shelter in Place,” effective March 17, 2020, directing individuals to stay at home except to provide or receive essential services. The order is in effect until April 7, 2020, but may be amended or extended. The State of California issued a similar “Stay at Home” order effective Thursday, March 19, 2020. Non-essential businesses are ordered to close, effectively leaving only gas stations, grocery stores, take-out/delivery restaurants, and pharmacies open. These necessary actions to curb the transmission of the virus will result in a negative impact on the City’s anticipated FY 2019-20 and FY 2020-21 revenues. Sales Taxes, Transient Occupancy Taxes, and Parking Taxes, all of which are heavily dependent on purchases and patronage by everyday consumers and travelers alike, are almost certainly impacted.

There is limited data available to analyze the economic impact of the virus. Staff are using a variety of sources to drill down into each of the major tax revenues. This includes historical analysis of previous U.S. economic recessions (2001 & 2008) as well as current news and industry reports.

In addition, staff is continuing to monitor the impact of the pandemic on the City’s pension liabilities. The global and domestic market has experienced unprecedented volatility in the last few weeks which is certainly affecting asset values in both the CalPERS and PFRS pension funds. While this year’s returns will not impact the current fiscal year or FY 2020-21 as those contribution rates are already built into the budget, staff is expecting significant increases to the required contributions in the next 2-3 fiscal years.

The City’s response to the fiscal impacts of this crisis is somewhat analogous to the public health crisis itself in that if the City takes decisive action now to reduce expenditures and suspend actions that may compromise our revenue base, it may be spared from deeper

reductions in the near-term. Early action is a necessary form of risk management given the abounding uncertainty on both the duration and depth of the current economic contraction.

The key criteria by which staff are examining options are: 1) the speed at which sufficient cost savings can be generated; and, 2) the speed at which the actions can be reversed to allow the City to quickly rebound with staffing and services once the crisis abates.

Key options under consideration include:

- Instituting a hiring freeze with selective exceptions, at the time of final hiring actions;
- Temporary reductions to city services and positions (i.e., reduction in force) especially those associated with services that the City cannot provide during the shelter-in-place order;
- Reduction of all non-essential expenses both personnel and O&M across all city services including public safety functions;
- Elimination of any expenses for travel and education that are not associated with the response to the public health emergency;
- Suspending transfers into and use of the Vital Services Stabilization Fund (VSSF);
- Suspending the contribution to the OPEB unfunded liability;
- Suspension of proposals that would substantially affect the City's revenue tax base including modifications to any of the City's tax codes, changes to the operating regulations, and enforcement of City codes not associated with the public health crisis.

ANALYSIS AND POLICY ALTERNATIVES

FY 2019-20 GENERAL PURPOSE FUND

In the Second Quarter (Q2) Revenue & Expenditure report, year-end GPF revenues were projected to be \$676.26 million. Due to the COVID-19 crisis, year-end revenues are now projected to be \$648.36 million, a \$27.9 million decrease from the second quarter projections (**Table 1**). As shown in **Table 2**, assuming no change in projected expenditures from the second quarter, the fund balance is estimated to be a negative \$(27.68) million.

Table 1. FY 2019-20 Projected GPF Revenue Adjustments as of February 2020

(\$ in millions)

Revenue Category	Adopted Budget	Q2 Year-End Estimate	February 2020 Adjustment	Variance (Feb 2020 and Q2 estimate)
Property Tax	\$ 215.02	\$ 224.26	\$ 224.26	\$ -
Sales Tax	\$ 59.95	\$ 59.57	\$ 56.42	\$ (3.16)
Vehicle License Fees	\$ -	\$ -	\$ -	\$ -
Business License Tax	\$ 99.67	\$ 99.67	\$ 95.14	\$ (4.53)
Utility Consumption Tax	\$ 55.16	\$ 51.03	\$ 51.03	\$ -
Real Estate Transfer Tax	\$ 82.87	\$ 98.96	\$ 94.46	\$ (4.50)
Transient Occupancy Tax	\$ 27.80	\$ 27.08	\$ 18.01	\$ (9.07)
Parking Tax	\$ 11.46	\$ 11.46	\$ 8.87	\$ (2.59)
Local Tax	\$ -	\$ -	\$ -	\$ -
Licenses & Permits	\$ 2.95	\$ 2.95	\$ 2.95	\$ -
Fines & Penalties	\$ 19.79	\$ 19.79	\$ 18.29	\$ (1.50)
Interest Income	\$ 1.21	\$ 1.21	\$ 1.21	\$ -
Service Charges	\$ 67.23	\$ 67.23	\$ 64.08	\$ (3.15)
Grants & Subsidies	\$ 0.12	\$ 1.15	\$ 1.32	\$ 0.16
Miscellaneous	\$ 0.97	\$ 0.97	\$ 1.41	\$ 0.44
Inter-Fund Transfers	\$ 6.81	\$ 6.81	\$ 6.81	\$ -
Sub-Total Revenue	\$ 651.01	\$ 672.15	\$ 644.25	\$ (27.90)
Transfers from Fund Balance	\$ 4.11	\$ 4.11	\$ 4.11	\$ -
Total Revenue	\$ 655.13	\$ 676.26	\$ 648.36	\$ (27.90)

Table 2. FY 2019-20 Projected Year-End Available GPF Fund Balance as of February 2020

(\$ in millions)

GENERAL PURPOSE FUND (1010)	FY 2019-20 Projected FYE
Beginning Fund Balance - Audited	\$ 97.86
Revenue	\$ 648.36
Expenditures	\$ 671.87
Estimated Current Year Surplus/(Shortfall)	\$ (23.50)
Subtotal Fund Balance	\$ 74.35
Use of Fund Balance:	
Projects Carried Forward (CF) to FY 2019-20	\$ (23.69)
FY 2019-20 Adopted Budget	\$ (4.11)
FY 2020-21 Adopted Budget	\$ (4.54)
FY 2019-20 Kid's First True Up Estimate	\$ (0.63)
Subtotal Use of Fund Balance	\$ (32.98)
Designated / Mandated Reserves:	
7.5% GPF Required Reserve	\$ (49.13)
FY 2019-20 VSSF & LTO Transfer Estimate (Total 50% Excess RETT set-aside)	\$ (6.58)
FY 2018-19 VSSF & LTO Transfer (Total 50% Excess RETT set-aside)	\$ (10.98)
OMERS Reversion of Assets (held with Trustee; Resolution 85098)	\$ (2.36)
Subtotal Reserves	\$ (69.05)
Estimated Ending Available Fund Balance	\$ (27.68)

Sales Tax

Staff, in conjunction with the City's sales tax consultant, are currently estimating a decrease in FY 2019-20 of **(\$3.16) million** from the second quarter forecast of \$59.57 million. Specifically, staff anticipates a decrease of sales taxes from 1) Auto & Transportation, which consists of auto sales, gas sales and jet fuel; 2) Business & Industry; and 3) Restaurants & Hotels; and a flattening in all other categories. A portion of this decrease will be offset by increases in the County pool.

Business Tax

The City's business tax filings and payments are due on January 1 and are considered delinquent if not received by March 1. Since most the taxpayers have filed and remitted taxes, there will be little impact on FY 2019-20 business taxes due to COVID-19. The City may see an

impact with regards to revenue derived from delinquent filings, but staff expects that to be limited. There is approximately \$5 million of business tax revenue forecasted to be derived from the lien process of delinquent residential and commercial landlords. If the Council does not approve the lien of properties in FY 2019-20 to collect delinquent business taxes, the FY 2019-20 year-end forecast will need to be reduced by **(\$4.53) million**.

Real Estate Transfer Tax

Currently there is only speculation around possible impacts to the real estate markets from the COVID-19 pandemic. According to the California Association of REALTORS® (CAR), they “have processed all of the recent data and will likely revise its forecast lower in the coming weeks. However, based upon their current expectations for the trajectory of the virus, the revisions will be modest unless the outbreak accelerates beyond current expectations.”¹ It is expected that the sharp decline in the stock market will shift some buyers from all cash sales, to financed sales, thus creating more traditional closing timelines. The stock market decline is anticipated to produce less buyer traffic, as some buyers lost immediate access to down payments if it was invested in the stock market. Staff is forecasting revenues of approximately \$94.46 million, which is still \$11.59 above the FY 2019-20 adopted budget, but **(\$4.50) million** less than the second quarter forecast.

Transient Occupancy Tax (TOT)

As large public gatherings are canceled, as well as all non-essential business travel, and travel restrictions from Europe take effect, hotel occupancy rates in the Bay Area are plunging to 20 percent or less, down from occupancy rates around 80 percent. The unprecedented disruption caused by COVID-19 to the airline industry also creates a domino effect to the lodging industry because airlines no longer need as many hotel rooms for the flight crew impacting many local hotels in close proximity to the airport. Drastically reduced hotel occupancies will have an immediate negative impact on revenues received from transient occupancies. Due to the extreme restrictions, staff is reducing the forecast TOT revenue by **(\$9.07) million** relative to the second quarter.

Parking Tax

Through the end of February, GPF parking tax revenue was flat when compared to FY 2018-19, while the budget contemplated a 3.69% increase largely driven by planned increases in parking tax revenues from the City’s parking garages due to increases in hourly and monthly parking rates. 37% of parking tax revenues derive from Oakland Airport/Port activity, 4% from hotels, 51% from parking garages and surface lots, and 8% from other sources. Due to the decrease in

¹ <https://www.car.org/en/aboutus/mediacenter/news/newsmarch12>

traffic through the Airport/Port and at the hotels, garages and surface lots, staff anticipates at least a 50% reduction **(\$2.59) million** in revenues for the remainder of the fiscal year.

Parking Meters & Parking Citations

In response to the COVID-19 shelter in place order from both the County and the State, the City has “turned off” parking meters and seriously restricted the issuance of parking citations. Furthermore, due to limited staffing, the City has suspended the accrual of Parking Citation penalties for non-payment for 60 days to ensure that those who need to pay a citation in person, have the ability to do so without being penalized. Depending upon the duration of the Shelter-in-Place order, staff anticipates a reduction of **(\$3.15) million** in parking meter revenues and **(\$1.5) million** in parking citation revenues.

PRELIMINARY FY 2020-21 GPF ANALYSIS

It is difficult to model the impact of COVID-19 into the coming fiscal year; the data is ever changing and Federal stimulus packages are still being discussed. Furthermore, it is unknown what Council policies will be enacted that may impact GPF revenues. To provide a rough impact analysis, staff looked to the impact of the Great Recession on GPF revenues between FY 2007-08 and 2008-09, and the impact of the current shelter in place and travel ban. The forecast below assumes a possible recovery after the Third Quarter of FY 2020-21.

(\$ in millions)

Adopted FY 2020-21 Budget	\$ 684.55
Additional Forecast Revenues	
Property Tax (RPTTF)	\$ 9.71
RETT	\$ 3.69
Forecasted GPF Revenue Losses	
Sales tax	\$ (8.09)
Business tax	\$ (4.01)
Utility user tax	\$ (4.82)
Transient occupancy tax	\$ (14.10)
Parking tax	\$ (2.95)
Licenses & Permits	\$ (0.59)
Fines & Penalties	\$ (1.42)
Interest income	\$ (0.73)
Service charges	\$ (2.08)
Midcycle Year-End Forecast	\$ 659.16
Over/(Under) Adopted Budget	\$ (25.39)

RECOMMENDATIONS

Staff is in the process of examining numerous options for City Council consideration to address the fiscal impacts of the COVID-19 public health emergency in FY 2019-20 and FY 2020-21. A key purpose of this report is to begin discussions on the numerous critical measures that staff may recommend in future legislation, once further analysis has been completed.

The City's response to the fiscal impacts of this crisis is somewhat analogous to the public health crisis itself. If the City takes urgent action to reduce expenditures and suspends actions that may compromise our revenue base, it will be spared deeper reductions in the near-term. While urgent action may at first seem alarmist; it can prevent a more profound City fiscal crisis. All financial decisions must be considered in the context of what we know and what we don't know.

What We Know	What We Don't Know
<ul style="list-style-type: none">• There will likely be impacts on sales taxes, hotel taxes, user fees and charges• We don't have local polices to deal with this unprecedented event	<ul style="list-style-type: none">• How long this crisis will last• What will happen to local revenues• How hard-hit our revenues will be• If this will trigger a recession and how long it will take to recover

The criteria by which we are examining the options noted below, and any additional options that may arise are twofold:

- To quickly generate sufficient cost savings to cover the rapid and immediate drop of City revenues, allowing the City to avoid more severe and lasting reductions to services.
- To allow for the quick rebound of City staffing and services once the crisis abates. A lesson learned from the 2001 and 2008 contractions is that certain actions to generate savings cannot quickly be reversed leading to a painfully slow return of staffing and services to prior levels.

Options under consideration Include:

Instituting hiring freeze with selective exceptions

Suspension of Final Hiring – Staff is examining a hiring freeze which stops finalization of non-critical hiring actions at the candidate offer letter stage. This allows for continued operation of the other stages of the recruitment process such as job posting, civil service exams, creation of eligible lists and candidate selection interviews. This enables the City to maintain eligible lists of qualified candidates to allow Departments the ability to quickly hire for vacancies once the fiscal effects of this crisis abate. Critical positions could be selectively filled when identified. In past

recessions, recruitment activities were severely curtailed, human resources staff was reduced and organizational development capacity diminished. It is critical that the City maintain its ability to re-staff quickly. By leaving positions vacant the City can realize significant salary savings which can avert the need to make deeper cuts to existing staff and services.

Temporary Reductions to City Services and Positions

Staff is examining the impacts of reducing staffing and O&M costs associated with services that the City cannot provide during the shelter-in-place order. To the extent possible, the administration is promoting telecommuting. However, this is not a sustainable business approach as many services require in-person interaction. Staff continues to evaluate the City's essential functions and to what degree City business can adapt. There will not be recommended reduction if a grant or other restricted source will continue to pay for personnel.

Staff is also investigating the reduction of all non-essential expenses, both personnel and O&M, across all City services including public safety functions, including public safety functions such as public safety overtime expenses.

Other expenses that are under examination include: travel and education that are not associated with the response to the public health emergency, and City Internal Services that can be reduced due in correlation to reduction in direct services.

In preparation for potential reduction in force activities, the administration will identify and activate an interdepartmental team led by the Department of Human Resources Management, which will include Finance, City Administration and departmental representatives. To conduct a layoff action, the team will need approximately 6-8 weeks advance notice to prepare. The process is manually intensive due to the utmost need for accuracy and will require extensive engagement with the City's bargaining groups.

Financial & Policy Actions

Staff is examining suspension of transfers into the Vital Services Stabilization Fund (VSSF) and Long-Term Liabilities account including amounts that are owed for the FY 2018-19 true up. Staff is also considering withdrawal of resources directly from the VSSF to support operations.

Staff is examining suspending the Other Post Employment Benefits (OPEB) funding policy which requires a contribution of 2.5% of payroll (approximately \$10 million) to the unfunded liability.

Staff is also examining various sources that are restricted by Council Ordinance or Resolution and which may be temporarily made available to sustain operations.

APPENDIX A

FY 2019-21 NON-GPF FUND REVENUES

Measures B & BB

(\$ in millions)

MEASURE B (2211, 2212, 2213)	Adopted Budget	Projection	Variance
FY 2019-20	\$ 15.51	\$ 14.43	\$ (1.08)
FY 2020-21	\$ 15.97	\$ 14.85	\$ (1.12)

MEASURE BB (2216, 2218, 2219, 2220)	Adopted Budget	Projection	Variance
FY 2019-20	\$ 14.32	\$ 10.31	\$ (4.01)
FY 2020-21	\$ 14.75	\$ 13.57	\$ (1.18)

Both Measures are quarter (.25) cent sales taxes. Staff, working the City's sales tax consultant, anticipates a sales tax decrease at point of sale of approximately -8%. Both Measure B & BB FY 2019-20 year-end forecast has been decreased accordingly.

State Gas Tax

(\$ in millions)

STATE GAS TAX (2230, 2232)	Adopted Budget	Projection	Variance
FY 2019-20	\$ 19.82	\$ 16.88	\$ (2.94)
FY 2020-21	\$ 18.81	\$ 18.81	\$ (0.00)

The impact on gas tax from COVID-19 is difficult to model. Gas tax is a flat rate per gallon assessed at the gas pump. Gas tax will decrease if fewer gallons of gas are sold. The best data currently available is from the 2008 financial crisis, where the City experienced a negative growth rate of -17% when comparing FY 2007-08 to FY 2008-09. However, in FY 2009-10, gas tax grew 15%. The year-end estimate reflects a similar drop for the remainder of FY 2019-20 and no change to the FY 2020-21 Adopted Budget. Staff anticipates that the State of California will release new estimates soon and will update these numbers accordingly.

Development Services Fund (Fund 2415)

(\$ in millions)

DEVELOPMENT SERVICE FUND (2415)	Adopted Budget	Projection	Variance
FY 2019-20	\$ 61.58	\$ 58.18	\$ (3.40)
FY 2020-21	\$ 61.61	\$ 46.58	\$ (15.03)

As of the close of FY 2019-20 accounting period 8, Fund 2415 revenues were 81% to budget with 4 months remaining in the fiscal year. The impact from COVID-19 will be minimal in FY 2019-20. Staff anticipates substantial impact in FY 2020-21 if the economic engine that drives construction comes to a halt or significantly slows. During the Great Recession, in FY 2008-09, the City experienced a 25% decrease in permit revenues, a 34% decrease in inspection revenues and a 4% decrease in other revenues. Using those numbers as a model the City could see a decline of as much as (\$15.03) million in FY 2020-19.

Measure Z Parking Tax

(\$ in millions)

MEASURE Z - VIOLENCE PREVENTION (2252)	Adopted Budget	Projection	Variance
FY 2019-20	\$ 29.31	\$ 26.91	\$ (2.40)
FY 2020-21	\$ 30.14	\$ 28.73	\$ (1.41)

Through the end of February, parking tax revenue was flat when compared to FY 2018-19, while the budget contemplated 1.5%. 37% of parking tax revenues derive from airport/Port activity, 4% from hotels, 51% from parking garages and surface lots, and 8% from “other”. Due to the decrease in traffic through the airport/Port and at the hotels, garages and surface lots, staff anticipates at least a 50% reduction in revenues for the remainder of the fiscal year.

Measure C Transient Occupancy Tax

(\$ in millions)

MEASURE C - TRANSIENT OCCUPANY TAX (2419)	Adopted Budget	Projection	Variance
FY 2019-20	\$ 7.58	\$ 4.91	\$ (2.67)
FY 2020-21	\$ 7.89	\$ 5.52	\$ (2.37)

At the Q2 analysis (FY 2019-20, July-December), TOT was growing 4.48% when compared to FY 2019-20, which was already less than the budgeted growth of 7.23%.

As large public gatherings are canceled, as well as all non-essential business travel, and travel restrictions from Europe take effect, hotel occupancy rates in the Bay Area are plunging to 20-30% from highs of 78- 80%. The unprecedented disruption caused by COVID-19 to the airline industry also creates a domino effect to the lodging industry because airlines no longer need as many hotel rooms as they may once have for the flight crew that represents a stable and predictable source of revenue for many local hotels close to the airport. Drastically reduced hotel occupancies will have an immediate negative impact on revenues received from transient occupancies.